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Cantol Limited 1974 Annual Report

Cantol



Head Office

9729 Cote de Liesse, Dorval, Quebec

Executive Offices and Plant

199 Steelcase Road, Box 2400,
Don Mills, Ontario

**Subsidiary and
Associated Companies**
CANTOL LIMITED

Chemical Division—

Momar (Canada) Limited
Canadian Permag Products Ltd.
Warco Lubricants

Dependable Furniture
Neo Drug Company

CANTOL INC.
Chemical Division—

Auditors

Soberman, Isenbaum, Colomby & Nisker

Bankers

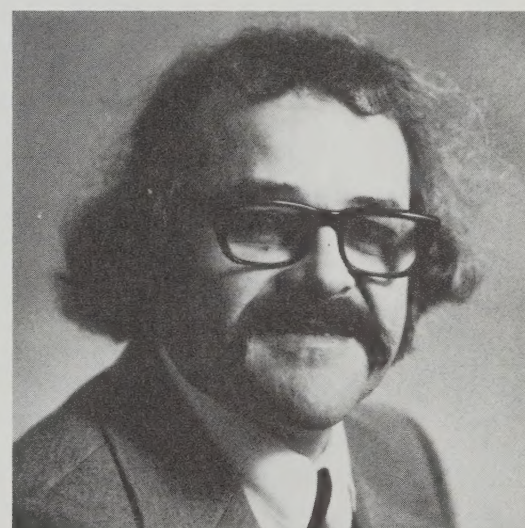
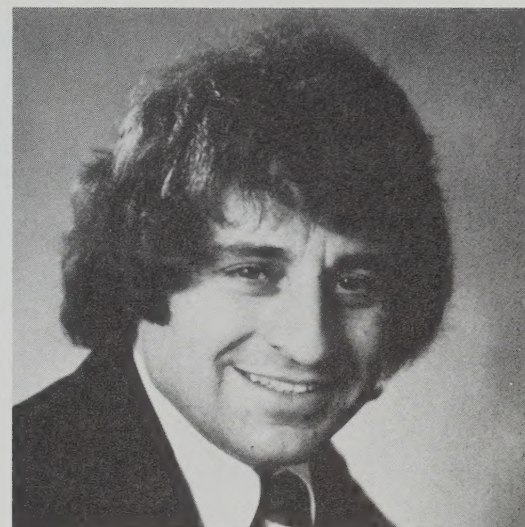
Canadian Imperial Bank of Commerce

**Transfer Agent
and Registrar**

Crown Trust Company

Stock Listing

Montreal Stock Exchange



Directors

Edward Bayer

Jerry Sone

Jeffrey Bayer

Simms Shuber

Senator Keith Davey

Officers

Edward Bayer
President

Jerry Sone
Executive Vice President
and Secretary

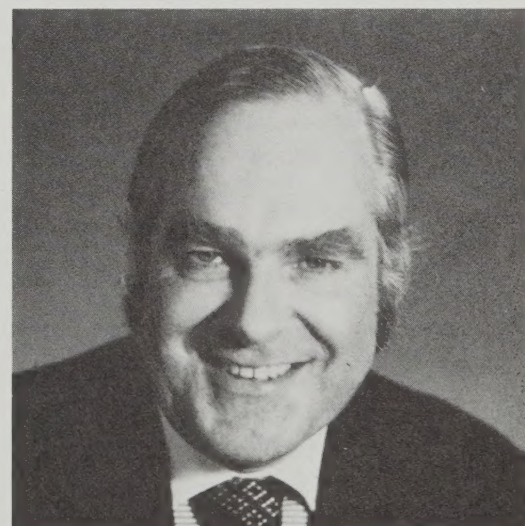
Jeffrey Bayer
General Manager and Treasurer

Elmer Snethen
General Manager, U.S.A.

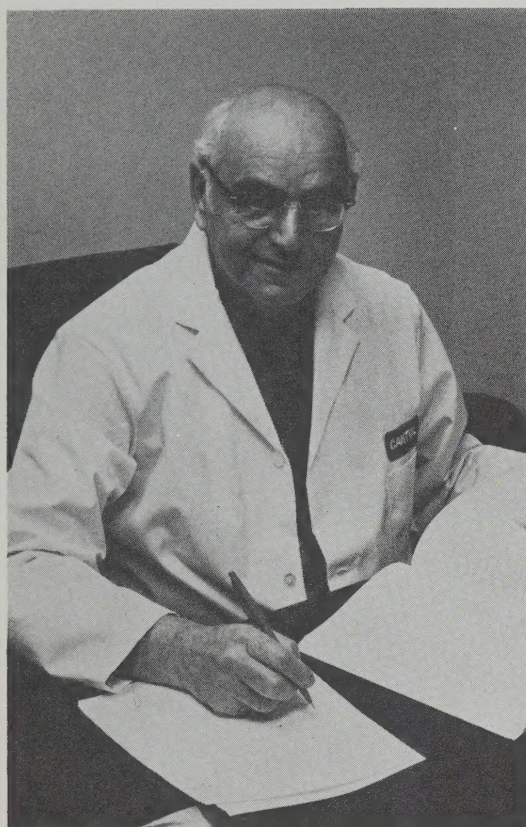
William McAlpine
Vice President, Sales

Dr. Ernest Knapp
Director of Research

Audrey White
Comptroller







Dr. Ernest Knapp

Dr. Ernest Knapp, Director of Research. Having spent his entire career in the field of industrial specialty chemicals, he joined Cantol ten years ago, bringing with him a wealth of knowledge in this area. He oversees quality control, product development and research in Canada and the U.S.A.

William T. McAlpine, Vice-President (Sales) for Canada and U.S. operations. Following ten years sales and service experience in the specialty chemical field, joined Cantol thirteen years ago as a sales representative. Appointed to his present position three years ago, now supervises all sales, working directly with sales managers and sales representatives internationally.

J. Norman Leach, Technical Director, Industrial Division. Commencing with an associated company thirty-eight years ago, (acquired by Cantol in 1969), he has been involved in the industrial chemical field since then. Works directly with the sales staff in the field introducing specialty industrial chemicals, and assists in product development.



William T. McAlpine

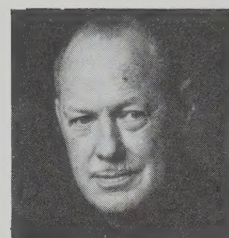


Martin Rosenberg

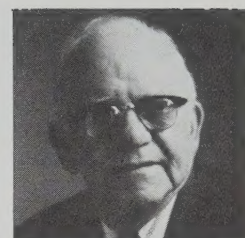
L. Earl Brill, Technical Director, Lubricant Division. Established himself in the lubricant field forty-three years ago. (Acquired by Cantol in 1971.) Member of the American Society of Lubricant Engineers. Works directly with the sales force in the field and on product development.

Murray Waldman, Sales Manager, Toronto. Joined Cantol as a sales representative eleven years ago, during which he was appointed to his present position. He is responsible for sales promotion and development throughout the Toronto area.

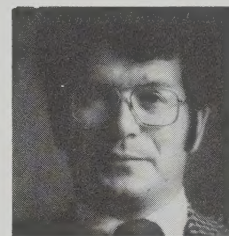
John Hexamer, Sales Manager, Western Ontario. Joined the administrative staff of Cantol eight years ago. A year later, he transferred to the Sales Division, where he quickly rose to his present position in which he is responsible for sales and service throughout Western Ontario.



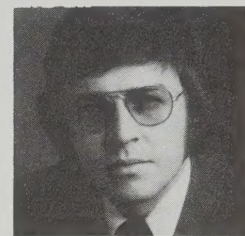
J. Norman Leach



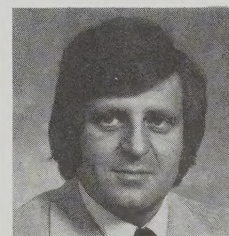
L. Earl Brill



Murray Waldman



John Hexamer

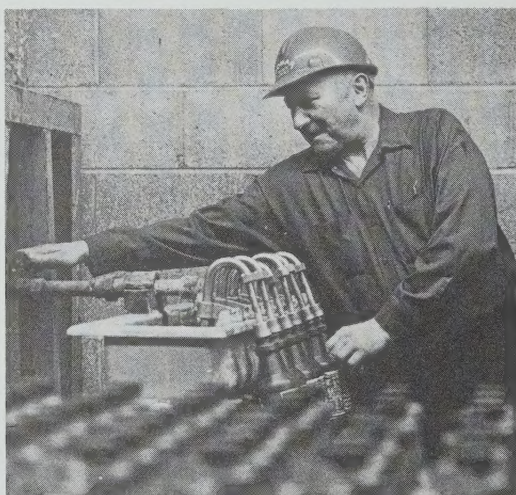
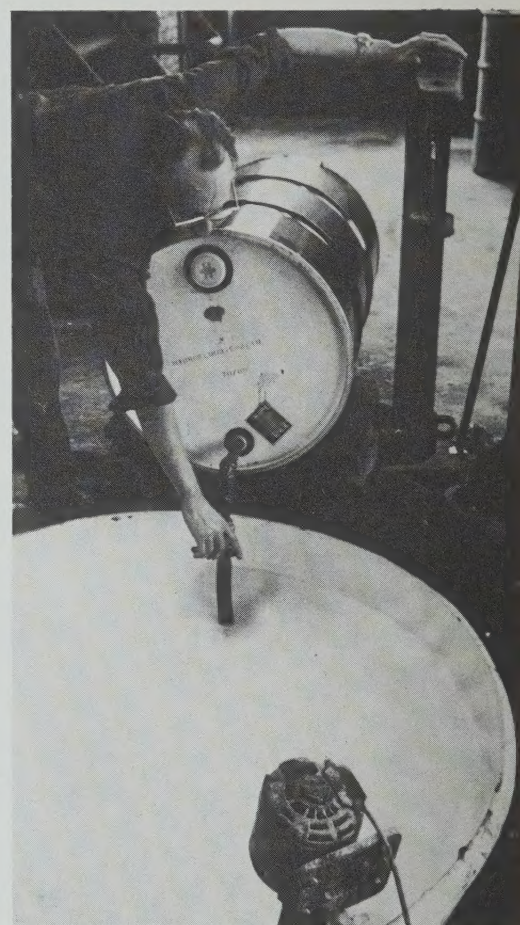


Allen Stroll

Martin Rosenberg, Sales and General Manager, Specialty Chemical Division for Quebec and the Maritime Provinces. Joined Cantol as a sales representative ten years ago. Quickly rose to his present position in which he works directly with the sales staff throughout his area.

Elmer Snethen, General Manager, U.S. Operations. Has spent his entire business career in the specialty chemical field, commencing in sales. He is now responsible for all U.S. operations.

Allen Stroll, General Sales Manager, United States operation. Joined Cantol sales force eight years ago, working in Western Ontario. Subsequently appointed Sales Manager, Western Canada. In 1972, after Cantol's acquisition in the U.S., he was appointed to his present position in which he works directly with the sales staff in sales promotion throughout this area.

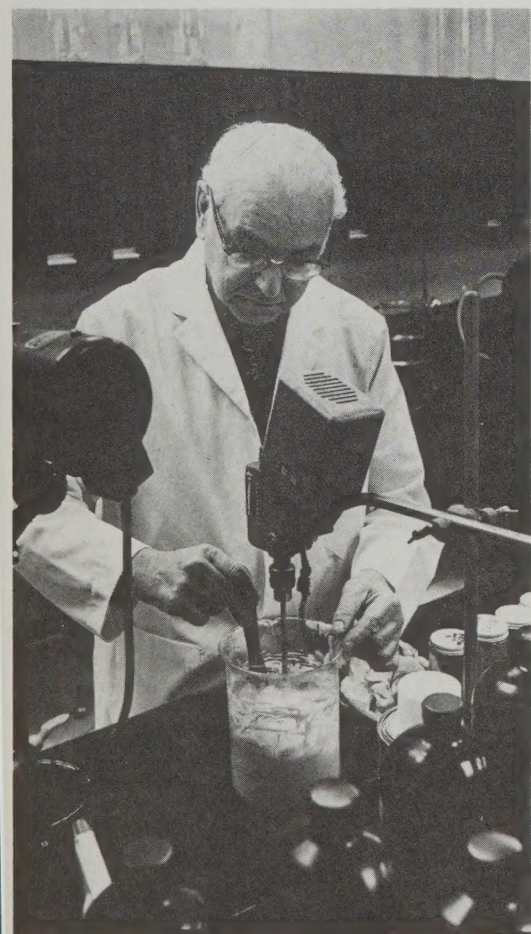


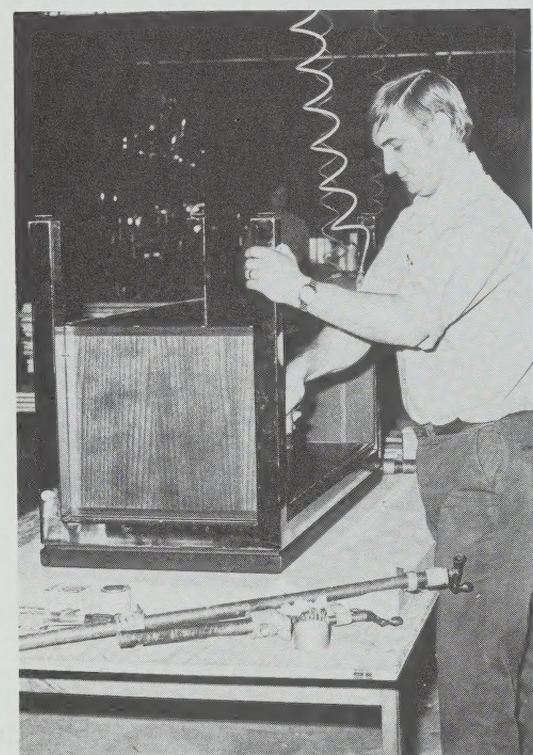
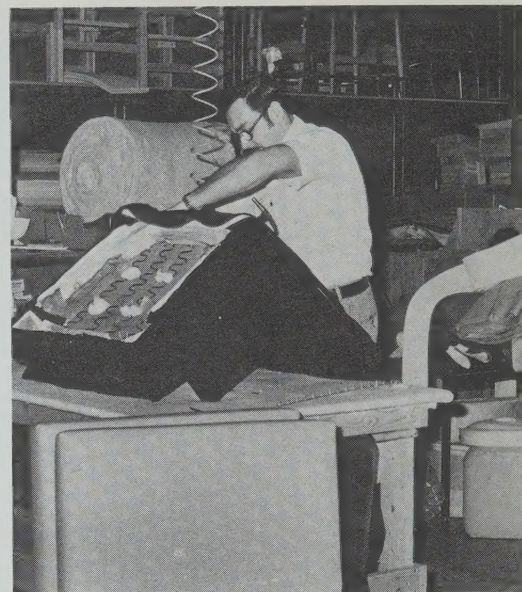
Solvents

Cantol Specialty Chemical Division

At Cantol Limited, we manufacture approximately 400 chemical products. These products are sold through our qualified sales staff. A wide number of specialty chemicals such as degreasers, solvents and lubricants used in the manufacturing of other products are sold to industry. Our complete line of institutional cleansers, disinfectants and insecticides is sold for use throughout hospitals, hotels, office buildings, schools and various other institutions.

Cantol Limited is a supplier of chemical products to the Automotive Industry, the Aviation Industry, Paper Mills, Railroads, Metal Finishers, Brewers-Bottlers, Fleet Operators, Office Buildings, Municipalities, Hospitals, Public Works Utilities, Institutions, and all types of industrial plants.







Cantol Furniture Division

Dependable Flexsteel Furniture showed record sales and profits for 1974. Concentration primarily in the contract and office furniture division accounted for much of the success.

A modern, attractive showroom has been built at the Head Office premises, signalling our serious intentions in establishing ourselves in the Eastern Canadian market.

Prospects for 1975 look bright and it appears that in spite of market conditions we will be able to better our 1974 year.



Message to the Shareholders.

1974 has been a record year for Cantol. Net earnings were \$543,334.00 (\$1.15 per common share) vs. 1973 \$346,656.00 (\$.74 per common share). As you are aware, this year the company paid a tax free dividend of \$.30 per share.

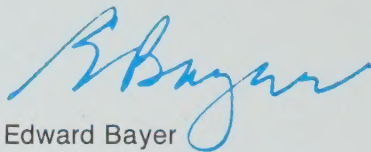
The increased profits result, in our opinion, from various factors. Increased sales; strong sales promotion; and, increased inventories which allowed the company to keep ahead of the raw material market, all contributed to the improved position.

We have expanded the Toronto plant to 55,000 square feet and our Dependable Furniture Division has opened a furniture showroom in part of the expanded plant. This is Dependable's first step to introduce our furniture products in the Eastern Canadian market.

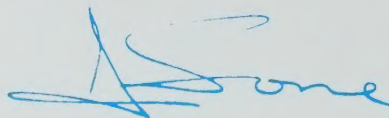
On December 31, 1974, the company entered into an agreement to sell its Neo Drug subsidiary. The contract is conditional upon approval under the Foreign Investment Review Act.

We sincerely appreciate the continued support of our shareholders, employees, customers and associates, in maintaining our successful growth.

On behalf of the Board,



Edward Bayer
President



Jerry Sone
Executive Vice President
and Secretary

Financial Highlights

	1974	1973
Sales	\$9,477,458	\$6,623,165
Net earnings	543,334	346,656
Cash flow from operations	630,970	398,063
Earnings per share		
Before extraordinary items	.98	.62
Net earnings	1.15	.74
Cash flow per share from operations	1.34	.86
Dividends per share	.30	—
Book value per share	7.63	7.53

Consolidated Statement of Earnings	For the year ended December 31, 1974 (with comparative figures for 1973)	1974	1973
Sales		\$9,477,458	\$6,623,165
Operating costs and expenses			
Cost of sales, selling, general and administrative expenses, except for the following:		8,278,328	5,962,347
Depreciation		86,236	53,947
Interest on long-term debt		28,291	24,233
Other interest		111,552	44,243
Interest earned		—	(22,421)
		8,504,407	6,062,349
Earnings before income taxes and extraordinary items		973,051	560,816
Income taxes: current		508,417	267,500
: deferred		1,400	2,300
		509,817	269,800
Earnings before extraordinary items		463,234	291,016
Extraordinary items (note 6)		80,100	55,640
Net earnings		\$ 543,334	\$ 346,656
Earnings per share (note 7)			
Before extraordinary items		\$.98	\$.62
Extraordinary items		.17	.12
Net earnings		\$ 1.15	\$.74

See accompanying notes to consolidated
financial statements.

Auditors' Report to the Shareholders of Cantol Limited/Cantol Limitée

We have examined the consolidated
balance sheet of Cantol Limited/Cantol
Limitée and subsidiary companies as
at December 31, 1974, and the
consolidated statements of earnings,
contributed surplus, retained earnings

and changes in financial position for the
year then ended. Our examination
included a general review of the
accounting procedures and such tests
of accounting records and other
supporting evidence as we considered
necessary in the circumstances.
In our opinion, these consolidated
financial statements present fairly the

financial position of the companies as
at December 31, 1974 and the results
of their operations and the changes in
their financial positions for the year then
ended, in accordance with generally
accepted accounting principles, applied
on a basis consistent with that of the
preceding year.

Soberman, Isenbaum, Colomby & Nisker
Chartered Accountants

Toronto, Canada
March 3, 1975

Consolidated
Balance SheetAs at December 31, 1974
(with comparative figures for 1973)

1974

1973

Assets**Current assets**

Accounts receivable	\$1,540,998	\$1,468,726
Inventories (note 1(c))	1,536,020	1,084,017
Prepaid expenses and other current assets	87,298	90,429
Total current assets	3,164,316	2,643,172

Fixed assets

	Cost	Accumulated Depreciation		
Land	\$ 325,185	\$ —	325,185	325,185
Buildings	163,185	40,997	122,188	129,028
Machinery and equipment	441,824	172,733	269,091	261,010
Leasehold improvements	202,254	39,833	162,421	89,117
	1,132,448	253,563	878,885	804,340
Goodwill (note 1(e))			2,742,017	3,047,017

\$6,785,218**\$6,494,529**See accompanying notes to consolidated
financial statements.

1974

1973

Liabilities

Current Liabilities

Bank indebtedness (note 2)	\$1,508,170	\$ 892,815
Accounts payable and accrued charges	825,075	998,723
Income taxes	4,764	55,913
Current portion of long-term debt	83,948	99,541
Total current liabilities	2,421,957	2,046,992

Long-term debt and other non-current liabilities (note 3)	727,068	922,194
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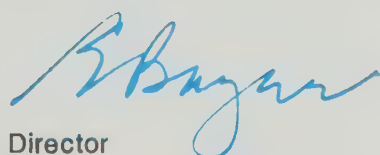
Deferred income taxes	8,700	7,300
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Shareholders' Equity

Capital stock (note 5)

Authorized:	1,500,000 common shares of \$0.20 par value		
Issued:	475,330 shares (1973—659,565 shares)	95,066	131,913
Contributed surplus		2,638,736	3,459,479
Retained earnings		893,691	823,120
		3,627,493	4,414,512
	192,420 common shares of the parent company held by a subsidiary	—	896,469
		3,627,493	3,518,043
		\$6,785,218	\$6,494,529

Approved on behalf of the Board


Director


Director

Consolidated Statement of Contributed Surplus	For the year ended December 31, 1974 (with comparative figures for 1973)	1974	1973
Balance at beginning of the year		\$3,459,479	\$3,426,699
Excess of proceeds over par value of common shares issued under employees' stock option (note 5(c))		37,242	32,780
		3,496,721	3,459,479
Deduct: excess of cost over par value of common shares cancelled (note 5(b))		857,985	—
Balance at end of the year		\$2,638,736	\$3,459,479

Consolidated Statement of Retained Earnings	For the year ended December 31, 1974 (with comparative figures for 1973)	1974	1973
Balance at beginning of the year		\$ 823,120	\$ 476,464
Net earnings		543,334	346,656
		1,366,454	823,120
Deduct: dividends paid		142,599	—
: 15% tax paid on 1971 undistributed income		25,164	—
: goodwill written off (note 1(e))		305,000	—
		472,763	—
Balance at end of the year		\$ 893,691	\$ 823,120

**Consolidated Statement of Changes
in Financial Position**

For the year ended December 31, 1974
(with comparative figures for 1973)

1974

1973

Source of working capital

Net earnings	\$ 543,334	\$ 346,656
Items not requiring working capital		
Depreciation	86,236	53,947
Deferred income taxes	1,400	2,300
Gain on winding up of subsidiaries	—	(4,840)
Working capital from operations	630,970	398,063
Issue of common shares under employees' stock option plan	38,879	33,880
	669,849	431,943

Use of working capital

Excess of purchase price of businesses acquired over the book value of their underlying net assets	—	1,378,108
Net additions to fixed assets (including fixed assets of acquired businesses in 1973 of \$194,037)	160,781	290,709
	160,781	1,668,817
Less: long term debt incurred on purchase of the businesses and fixed assets acquired	—	700,000
	160,781	968,817
Net reduction of long-term debt and other non-current liabilities	195,126	89,241
Dividends paid	142,599	—
15% tax paid on undistributed income	25,164	—
Purchase of minority interest in subsidiary	—	9,125
	523,670	1,067,183
Increase (decrease) in working capital	146,179	(635,240)
Working capital at beginning of the year	596,180	1,231,420
Working capital at end of the year	\$ 742,359	\$ 596,180
Summary of changes in working capital:		
Increase (decrease) in current assets—		
Cash	\$ —	(\$ 601,807)
Accounts receivable	72,272	834,901
Inventories	452,003	732,364
Prepaid expenses and other current assets	(3,131)	43,104
	521,144	1,008,562
Increase (decrease) in current liabilities—		
Bank indebtedness	615,355	892,815
Accounts payable and accrued charges	(173,648)	722,658
Income taxes	(51,149)	47,509
Notes payable	—	(101,250)
Current portion of long-term debt	(15,593)	82,070
	374,965	1,643,802
Increase (decrease) in working capital	\$ 146,179	(\$ 635,240)

See accompanying notes to consolidated
financial statements.

Notes to Consolidated Financial Statements

December 31, 1974

1. Summary of significant accounting policies:

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

(b) Exchange translation
The accounts of the U.S. subsidiary have been translated at par since the exchange fluctuations were immaterial during the year.

(c) Inventories
Inventories are valued at the lower of cost (on a first in, first out basis) or net realizable value and consist of:

	1974	1973
Raw materials and work in process	\$1,188,277	\$ 747,422
Finished goods	347,743	336,595
	<u>\$1,536,020</u>	<u>\$1,084,017</u>

(d) Depreciation
The cost of the fixed assets is

depreciated over their estimated useful lives. The rates and methods used for the major depreciable assets are as follows:

- (i) Building—5% diminishing balance
- (ii) Machinery and equipment—generally straight-line over 8 to 10 years
- (iii) Leasehold improvements—over the unexpired terms of the leases

(e) Goodwill
Goodwill, which arose prior to 1974, represents the excess of the purchase price over the value ascribed to net tangible assets of businesses acquired and purchased goodwill.

The Company does not amortize this excess except where there is a permanent decline in value. Such a decline in value was recognized in 1974 and an amount of \$305,000 was written off to retained earnings (see note 10).

(f) Research and development costs
Research and development costs are charged against earnings as incurred.

2. Bank indebtedness

Bank indebtedness is generally secured by accounts receivable and inventories.

3. Long-term debt and other non-current liabilities

	1974	1973
(a) Long-term debt		
Mortgages payable		
first charge on land and buildings		
7½%, maturing 1976	\$146,194	\$154,235
9%, maturing 1978	22,500	25,000
Debenture payable		
without interest, due 1978 (b)	375,000	375,000
Notes payable		
interest at 6%, due 1977	231,522	300,000
without interest, repaid in 1974	—	140,000
	<u>775,216</u>	<u>994,235</u>
Less: principal payments due within one year	83,948	99,541
	<u>691,268</u>	<u>894,694</u>
Other non-current liabilities (net of current portion)	35,800	27,500
	<u>\$727,068</u>	<u>\$922,194</u>

Payments required to retire long-term debt:

1975	\$ 83,948	1977	\$ 84,177
1976	\$217,091	1978	\$421,800

(b) The debenture payable arose from the purchase of the net assets and business of Dependable Furniture Mfg.

Co. Ltd. and is secured by a charge on the assets purchased. The amount payable on the debenture may be reduced should the pre-tax earnings of this division not reach specific levels during the five year period ending June 30, 1978.

4. Income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, the timing differences between reported and taxable income result in deferred income taxes. In the case of one subsidiary, future income tax benefits totalling approximately \$20,000 and relating to losses incurred in 1973, were recognized and charged to deferred income taxes

as, in the opinion of management, it is virtually certain that future earnings will be sufficient to realize these benefits. In addition, at December 31, 1974, certain companies had losses aggregating approximately \$107,000 available to be carried forward for which potential tax recoveries have not been recognized in the accounts.

5. Capital stock

(a) Changes in common shares during the year were as follows:

	Number of Shares	Amount
Balance at beginning of year	659,565	\$131,913
Shares cancelled (b)	(192,420)	(38,484)
Exercise of stock options (c)	8,185	1,637
Balance at end of year	475,330	\$ 95,066

(b) During the year, an inactive wholly-owned subsidiary was wound-up and included in its assets were 192,420 common shares of Cantol Limited which were carried at its original cost of \$896,469. These shares were cancelled, the authorized capital reduced accordingly, and of the total carrying value of \$896,469, the par value of \$38,484 was charged to capital stock and the excess of \$857,985 charged to contributed surplus.

Simultaneously, by Supplementary Letters Patent, the Company's authorized capital was increased to \$300,000, consisting of 1,500,000 common shares of the par value of twenty cents.

(c) Stock options

(i) Under an employees' stock option plan established during 1974, 8,185 common shares were issued for cash for

\$4.75 per share. Of the \$38,879 total consideration received, the premium of \$37,242 was credited to contributed surplus and the par value of \$1,637 to capital stock.

(ii) An executive employees' stock option plan, which was in existence at December 31, 1974, was cancelled on February 26, 1975 and on that date the following stock option plans were established for which 23,700 common shares were reserved:

For an executive employees' stock option plan, exercisable in cumulative annual instalments of 3,140 shares at \$3.20 per share within a five year period ending April 14, 1979 15,700

For an employees' stock option plan, exercisable up to April 15, 1975 at \$3.20 per share 8,000
23,700

6. Extraordinary items

This consists of the following:

Reduction in income taxes as a result of loss carry forwards

Gain on the wind-up of certain inactive subsidiaries

	1974	1973
Reduction in income taxes as a result of loss carry forwards	\$80,100	\$50,800
Gain on the wind-up of certain inactive subsidiaries	—	4,840
	\$80,100	\$55,640

7. Earnings per share	Earnings per share have been calculated using the weighted average number of shares outstanding during the year. In the 1973 calculations, the 192,420 common shares of the Company, owned by a subsidiary (cancelled in 1974) were treated as though these shares were not issued. Assuming the exercise of all outstanding	stock options as referred to in note 5 (c) (ii) and providing for imputed earnings at the rate of 10% before tax on the deemed proceeds on the exercise of the stock options, the fully diluted earnings per share would be: Before extraordinary items \$.95 Net earnings \$1.11 There was no dilutive factor for 1973.
8. Remuneration of directors and senior officers	The total remuneration paid by the Company and its subsidiaries to its	directors and senior officers was \$244,600 in 1974 and \$201,300 in 1973.
9. Long-term leases	The Company has entered into long-term leases with respect to its existing operations with various expiry dates to 1984. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately \$728,000. In addition, the Company is committed	to five leases in connection with operations that have been discontinued. The gross liability under these leases approximate \$38,900; however, all five locations have been subleased and provision has been made in the accounts for the estimated future net losses to be incurred with respect thereto.
10. Commitment	The Company entered into an agreement dated December 31, 1974, subject to the approval of the Foreign Investment Review Board, to (i) sell all of the issued shares of Neo Drug Company, a wholly-owned subsidiary, for approximately \$720,000 and (ii) simultaneously purchase from Neo Drug Company, a certain real estate	property for \$415,000 subject to minor adjustments. The total consideration for the sale of shares approximates the book value of the investment at December 31, 1974, after recognizing the decline in value in goodwill on acquisition. The net cash proceeds that will be available to the Company after allowing for the assumption of the mortgage on the real estate will be \$450,000.

